

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 COME-00

CIAE-00 INR-07 NSAE-00 PA-01 PRS-01 FRB-03 /072 W

----- 115279

R 131325Z AUG 76

FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC 5362

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMCONSUL FRANKFURT

AMCONSUL ZURICH

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DEPARTMENT PLEASE PASS TREASURY

E.O. 11652: NA

TAGS: EFIN, LU

SUBJ: ARAB FUNDS AND OVERSEAS AMERICAN BANKS

1. GOL BANKING COMMISSIONER ALBERT DONDELINGER HAS RAISED THE QUESTION OF SECURITY OF ARAB FUNDS WHICH MIGHT BE DEPOSITED AT AMERICAN BANKS IN LUXEMBOURG. DONDELINGER RECENTLY VISITED SAUDI ARABIA, IS OBVIOUSLY INVOLVED IN NEGOTIATIONS AND WOULD LIKE TO GIVE UARANTEES FOR BANKS LOCATED IN THIS FINANCIAL CENTER.

2. THE OCCASION FOR THE INQUIRY WAS THE VISIT OF THE CHAIRMAN OF THE BOARD OF AMERICAN FLETCHER CORPORATION AND NATIONAL BANK, MR. FRANK E. MCKINNEY, JR. AMERICAN FLETCHER IS ONE OF FOUR U.S. BRANCH BANKS HERE ALONG WITH SEVEN SUBSIDIARIES OF U.S. PARENT BANKS. AMERICAN BANKS RANK SECOND IN NUMBER TO GERMAN BANKS HERE IN A TOTAL FOREIGN BANKING COMMUNITY OF EIGHTY.

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3. LUXEMBOURG'S POLICY OF BANKING SECRECY GIVES ADEQUATE

ANONYMITY TO BANK CLIENTS. ALSO, ACCORDING TO AN AMERICAN BANKER, THE FEDERAL RESERVE IS CONCERNED MORE STRICTLY WITH BANK LOANS (CREDIT SIDE) THAN DEPOSITS (LIABILITY SIDE).

4. DONDELINGER'S HYPOTHETICAL QUESTION CONCERNED THE POLICY OF THE U.S. GOVERNMENT IN THE EVENT OF A SAUDI ARABIAN EMBARGO OR OIL TO THE U.S. AND, MORE PRECISELY, WHAT WOULD BE THE POSITION OF AMERICAN BANKS IF CONGRESS ENACTED A FREEZE ON SAUDI (OR ARAB) DEPOSITS IN U.S. BANKS. MR. MCKINNEY EXPRESSED THE OPINION THAT U.S. BRANCHES CLEARLY WOULD BE LEGALLY REQUIRED TO COMPLY WITH ANY SUCH FREEZE. HE ALSO WENT FURTHER TO ASSUME THAT DESPITE THE LEGAL DISTINCTION OF SUBSIDIARY AS A LUXEMBOURG AND NON-U.S. ENTITY IT WOULD BE UNREALISTIC TO EXPECT A SUBSIDIARY OF U.S. PARENTAGE NOT TO COMPLY AS WELL.

5. ACTION REQUESTED: EMBASSY WOULD APPRECIATE GUIDELINES ON THE SECURITY QUESTION OF ARAB FUNDS IN U.S. BANKS OVERSEAS. THIS ISSUE WILL AFFECT ABILITY OF U.S. BANKS HERE TO ATTRACT ARAB FUNDS, EVEN FROM THOSE NATIONS FAVORABLY DISPOSED TO USE U.S. BANKING FACILITIES. ALSO, WE WISH TO BE ABLE TO ANSWER COMMISSIONER DONDELINGER WHEN HE NEXT RAISES THE SUBJECT. GINN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANKS, BANK DEPOSITS, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LUXEMB00807
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760312-0111
From: LUXEMBOURG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760856/aaaabwmv.tel
Line Count: 86
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 20 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 APR 2004 by BoyleJA>; APPROVED <23 AUG 2004 by izenbei0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ARAB FUNDS AND OVERSEAS AMERICAN BANKS
TAGS: EFIN, LU, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006